

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Walker, Michigan</u>	County Kent
Audit Date June 30, 2004	Opinion Date September 17, 2004	Date Accountant Report Submitted To State: October 27, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 333 Bridge Street, NW, Suite 600	City Grand Rapids	State MI	ZIP 49504
Accountant Signature 			

City of Walker, Michigan

Financial Report with Supplemental Information June 30, 2004

City of Walker, Michigan

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Independent Auditor's Report

To the Honorable Mayor and Members
of the City Commission
City of Walker, Michigan

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Walker, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Walker, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Walker, Michigan as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedules of funding progress and employer contributions, and the budgetary comparison schedules as identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A member of



A worldwide association of independent accounting firms

To the Honorable Mayor and Members
of the City Commission
City of Walker, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Walker, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 30, 2004

City of Walker, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Walker's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayer's resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements, by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date (in thousands of dollars):

	Governmental Activities	
	June 30	
	2004	2003
	(in thousands)	
Assets		
Current assets	\$ 7,678	\$ 7,216
Noncurrent assets	30,025	26,967
Total assets	37,703	34,183
Liabilities		
Current liabilities	3,280	3,017
Long-term liabilities	15,822	15,416
Total liabilities	19,102	18,433
Net Assets		
Invested in capital assets - Net of related debt	13,743	10,937
Restricted	2,394	2,730
Unrestricted	2,464	2,083
Total net assets	<u>\$ 18,601</u>	<u>\$ 15,750</u>

City of Walker, Michigan

Management's Discussion and Analysis (Continued)

The City's combined net assets increased 18 percent from a year ago - increasing from \$15,750,049 to \$18,601,469, mainly due to capital grants and contributions made to the City for infrastructure.

Income tax revenues, our biggest source of revenue, increased by approximately \$583,000 from 2003. Property tax collections in 2004 increased from 2003 by approximately \$58,000. The City of Walker continues to grow in the construction of industrial sites, commercial buildings, and new single family housing. Commercial development increased by approximately \$11,191,000 with six new permits. Meijer Inc. is currently constructing a new store at Wilson/Lake Michigan Dr. Twelve industrial projects are being built in the City for a total of approximately \$16,788,000 in new building structure permits. The revenues received by the City for building permits far exceeded our projected total by \$58,000. Permits were taken out for new family homes totaling \$15,684,000 for a permit revenue to the City of \$250,000.

The City continues to apply to the State of Michigan Department of Transportation for funding to improve roads. An award was given in the amount of \$667,000 to improve the intersection of Wilson and Burton. The City received an additional award of \$1,600,000 to improve Lake Michigan Drive from Manzana to the east city limits, adding a left turn lane and storm sewer. The intersection of Wilson and Lake Michigan Drive was awarded approximately \$790,000 from MDOT for construction of the intersection to allow for commercial development (Meijer). Meijer Inc., Goodale Enterprises, and the City of Walker Downtown Development Authority have also contributed to the cost of the construction of that intersection.

State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$190,000 this year. The State continues to threaten an even bigger decrease in the future. City staff will continue to monitor the activities of the State and will take measures necessary to account for any decrease.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - increased by \$381,000 for the governmental activities. This represents an increase of approximately 9 percent. The current level of unrestricted net assets for our governmental activities stands at \$2,464,365, or about 21.8 percent of expenditures.

City of Walker, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the change of the net assets during the current year (in thousands of dollars):

	Governmental Activities	
	June 30	
	2004	2003
	(in thousands)	
Revenue		
Program revenue:		
Charges for services	\$ 3,407	\$ 3,034
Operating grants and contributions	56	1,490
Capital grants and contributions	4,815	2,957
General revenue:		
Income taxes	7,388	6,804
Property taxes and other	1,151	1,093
State-shared revenue	1,773	1,963
Unrestricted investment earnings	109	161
Franchise fees	84	61
Loss on sale of equipment	(217)	
Other revenue	19	24
Total revenue	18,585	17,587
Program/Functional Expenses		
General government	4,549	4,099
Judicial Court	782	814
Police	3,944	3,887
Fire	1,235	1,190
Public works	2,509	2,133
Recreation and culture	1,946	1,943
Interest on long-term debt	769	835
Total program/functional expenses	15,734	14,901
Increase in Net Assets	\$ 2,851	\$ 2,686

The City's Funds

Our analysis of the City's major funds begins on page 9, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Commission creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2004 include the General Fund, the Major Street Fund, the Local Street Fund, the Improvement Revolving Fund, and the Ice and Fitness Program Fund.

City of Walker, Michigan

Management's Discussion and Analysis (Continued)

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$3,944,000 and \$1,236,000, respectively, in 2004. The total cost of police and fire is funded by the General Fund, with no dedicated tax millage.

General Fund Budgetary Highlights

Each department provides a budget amount at the beginning of the fiscal year. This amount is an expected expenditure amount for each department. Overall, the department stayed well within their budgets. Primarily due to meeting our required pension contributions, total expenditures were \$178,705 above budget, which was offset by revenue above budget of \$39,975.

Capital Asset and Debt Administration

At the end of 2004, the City had \$29,878,356 invested in a broad range of capital assets, including buildings, vehicles, parks, police and fire equipment, and public works equipment. In addition, the City spent approximately \$1,441,000 on road improvements during the year. The City had capital grants of \$2,547,000, for a total of \$3,988,000 on road and sidewalk improvements in the current year. During the year, the City issued Michigan Transportation Fund Bonds of \$1,270,000 to aid in the funding of 3 Mile from Walkent to Bristol and Lake Michigan Drive from Manzana east to the City line.

Economic Factors and Next Year's Budgets and Rates

The budget for fiscal year 2004-2005 has increased expenditures of \$106,000 from the previous year's budgeted amount. The City income tax revenue jumped in fiscal year 2003-2004 by approximately 9 percent. Meijer, Inc., one of the City's biggest taxpayers, is constructing a new store at Wilson and Lake Michigan Drive. The Grand Rapids Press has started their operations which will employ approximately 500 workers. The City has allocated approximately \$2,0356,000 to capital improvements and purchases and \$13,951,000 to the operations of the City government in the 2004-2005 budget.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the City Manager's office.

City of Walker, Michigan

Statement of Net Assets June 30, 2004

	Primary Government - Governmental Activities	Component Units
Assets		
Cash and cash equivalents (Note 3)	\$ 4,717,964	\$ 488,570
Investments (Note 3)	607,109	-
Receivables - Net (Note 4)	1,694,901	3,379
Other assets	103,749	-
Deposits	-	50,000
Inventories	119,041	-
Capital assets - Net (Note 5)	29,878,356	992,799
Intangible assets - Net (Note 5)	147,033	-
Total assets	37,268,153	1,534,748
Liabilities		
Accounts payable	459,636	129,605
Refundable income taxes	22,557	-
Unearned revenue	34,651	-
Accrued and other liabilities	498,299	-
Net pension liability (Note 11)	252,310	-
Noncurrent liabilities (Note 8):		
Due within one year:		
Capital lease payable (Note 7)	75,000	-
Accumulated employee benefits	451,782	-
Current portion of long-term debt	1,050,000	150,000
Due in more than one year:		
Accumulated employee benefits	812,449	-
Long-term debt	15,010,000	325,000
Total liabilities	18,666,684	604,605
Net Assets		
Invested in capital assets - Net of related debt	13,743,356	517,799
Restricted - Roads	1,767,919	-
Special assessment debt service	625,839	-
Unrestricted	2,464,355	412,344
Total net assets	<u>\$ 18,601,469</u>	<u>\$ 930,143</u>

City of Walker, Michigan

Statement of Activities Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
					Governmental Activities	
Primary government - Governmental activities:						
General government	\$ 4,549,121	\$ 998,456	\$ -	\$ 30,166	\$ (3,520,499)	\$ -
Judicial Court	781,767	962,992	-	-	181,225	-
Police	3,944,069	201,955	12,837	-	(3,729,277)	-
Fire	1,235,855	-	25,550	-	(1,210,305)	-
Public works	2,508,766	8,285	-	4,784,656	2,284,175	-
Recreation and culture	1,945,815	1,235,621	17,752	-	(692,442)	-
Interest on long-term debt	768,911	-	-	-	(768,911)	-
Total governmental activities	<u>\$ 15,734,304</u>	<u>\$ 3,407,309</u>	<u>\$ 56,139</u>	<u>\$ 4,814,822</u>	(7,456,034)	-
Component units:						
Downtown Development Authority	\$ 86,677	\$ 15,100	\$ -	\$ -	-	(71,577)
Brownfield Redevelopment	487,487	-	345,467	-	-	(142,020)
Total component units	<u>\$ 574,164</u>	<u>\$ 15,100</u>	<u>\$ 345,467</u>	<u>\$ -</u>	-	(213,597)
General revenues (expenses):						
					7,387,763	-
					1,151,484	369,748
					1,772,944	-
					109,385	6,570
					83,544	-
					(216,680)	-
					19,014	-
					10,307,454	376,318
Change in Net Assets					2,851,420	162,721
Net Assets - Beginning of year					15,750,049	767,422
Net Assets - End of year					\$ 18,601,469	\$ 930,143

City of Walker, Michigan

Governmental Funds Balance Sheet June 30, 2004

	General Fund	Major Street Fund	Local Street Fund	Improvement Revolving Fund	Ice and Fitness Program Fund	Other Non-major Governmental Funds	Total Governmental Funds
Assets							
Cash and cash equivalents	\$ 1,166,995	\$ 1,117,491	\$ 205,274	\$ 506,056	\$ 29,985	\$ 1,219,769	\$ 4,245,570
Investments	125,000	-	-	100,000	-	382,109	607,109
Receivables - Net	226,486	339,245	68,822	108,973	29,301	213,879	986,706
Other assets	90,115	9,544	4,090	-	-	-	103,749
Due from other governmental units	393,505	-	-	-	-	-	393,505
Due from other funds (Note 6)	690,000	164,209	-	-	43,000	-	897,209
Inventories	-	-	-	-	93,778	-	93,778
Total assets	\$ 2,692,101	\$ 1,630,489	\$ 278,186	\$ 715,029	\$ 196,064	\$ 1,815,757	\$ 7,327,626
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 186,715	\$ 109,351	\$ 1,887	\$ 2,379	\$ 140,432	\$ 11,059	\$ 451,823
Refundable income taxes	22,557	-	-	-	-	-	22,557
Accrued and other liabilities	275,301	20,663	8,855	-	27,695	-	332,514
Due to other funds (Note 6)	43,000	-	-	164,209	25,000	665,000	897,209
Deferred revenue	34,651	-	-	84,089	-	211,846	330,586
Total liabilities	562,224	130,014	10,742	250,677	193,127	887,905	2,034,689
Fund Balances							
Reserved, reported in:							
Special Revenue Funds	-	1,500,475	267,444	-	-	-	1,767,919
Debt Service Funds	-	-	-	-	-	625,839	625,839
Unreserved, reported in:							
General Fund	2,129,877	-	-	-	-	-	2,129,877
Special Revenue Funds	-	-	-	464,352	2,937	302,013	769,302
Total fund balances	2,129,877	1,500,475	267,444	464,352	2,937	927,852	5,292,937
Total liabilities and fund balances	\$ 2,692,101	\$ 1,630,489	\$ 278,186	\$ 715,029	\$ 196,064	\$ 1,815,757	\$ 7,327,626

City of Walker, Michigan

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets Year Ended June 30, 2004

Fund Balance - Total Governmental Funds	\$ 5,292,937
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Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	27,750,715
Intangible assets reported in governmental activities are not financial resources and are not reported in the funds	147,033
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	295,936
Receivables reported in the statement of activities that do not provide financial resources and are not reported as receivables in the governmental funds	314,692
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(16,060,000)
Net pension liability reported in the statement of activities but not in the governmental funds	(252,310)
Accrued interest on long-term liabilities is not due and payable in the current period and is not reported in the funds	(127,243)
Internal Service Funds are included as part of governmental activities	2,503,940
Compensated absences included as a liability in governmental activities	<u>(1,264,231)</u>

Net Assets of Governmental Activities	<u>\$ 18,601,469</u>
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City of Walker, Michigan

	General	Major Street	Local Street	Improvement Revolving
	Fund	Fund	Fund	Fund
Revenues				
Income taxes	\$ 7,387,763	\$ -	\$ -	\$ -
Property taxes and other	1,151,484	-	-	-
Federal sources	25,550	-	-	-
State-shared revenues and grants	1,849,326	1,212,783	425,102	-
Special assessments	-	-	-	71,064
Licenses and permits	478,959	-	-	-
Fines and forfeitures	962,813	-	-	-
Other charges for services	321,455	-	-	-
Rentals	15,773	-	-	-
Interest	38,837	3,971	916	12,894
Other	176,163	-	-	-
Total revenues	12,408,123	1,216,754	426,018	83,958
Expenditures				
Current:				
General government	2,391,625	-	-	642
Judicial Court	758,695	-	-	-
Police	3,557,701	-	-	-
Fire	1,119,861	-	-	-
Public works	396,351	966,583	446,552	-
Recreation and culture	433,111	-	-	-
Other	1,634,348	-	-	-
Capital outlay	135,108	936,547	129,844	-
Debt service	-	-	-	-
Total expenditures	10,426,800	1,903,130	576,396	642
Excess of Revenues Over (Under) Expenditures	1,981,323	(686,376)	(150,378)	83,316
Other Financing Sources (Uses)				
Bond proceeds	-	1,270,000	-	-
Transfers in	665,000	189,406	278,530	2,873
Transfers out	(1,858,540)	-	-	(229,630)
Total other financing sources (uses)	(1,193,540)	1,459,406	278,530	(226,757)
Net Change in Fund Balances	787,783	773,030	128,152	(143,441)
Fund Balances (Deficit) - July 1, 2003	1,342,094	727,445	139,292	607,793
Fund Balances - June 30, 2004	<u>\$ 2,129,877</u>	<u>\$ 1,500,475</u>	<u>\$ 267,444</u>	<u>\$ 464,352</u>

Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2004

Ice and Fitness Program Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 7,387,763
-	-	1,151,484
-	-	25,550
-	-	3,487,211
-	158,349	229,413
-	-	478,959
-	-	962,813
852,946	176,589	1,350,990
262,428	-	278,201
552	43,691	100,861
-	-	176,163
<u>1,115,926</u>	<u>378,629</u>	<u>15,629,408</u>
-	-	2,392,267
-	2,838	761,533
-	-	3,557,701
-	-	1,119,861
-	100,611	1,910,097
1,138,790	-	1,571,901
-	-	1,634,348
61,311	-	1,262,810
-	1,780,302	1,780,302
<u>1,200,101</u>	<u>1,883,751</u>	<u>15,990,820</u>
(84,175)	(1,505,122)	(361,412)
-	-	1,270,000
257,630	1,362,604	2,756,043
-	(667,873)	(2,756,043)
<u>257,630</u>	<u>694,731</u>	<u>1,270,000</u>
173,455	(810,391)	908,588
(170,518)	1,738,243	4,384,349
<u>\$ 2,937</u>	<u>\$ 927,852</u>	<u>\$ 5,292,937</u>

City of Walker, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds	\$ 908,588
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation. This is the amount by which capital outlays exceed depreciation in the current period	3,009,122
Loss reported in the statement of activities for disposal of capital assets over the amount of proceeds recognized in the governmental funds	(220,285)
Governmental funds report intangible assets as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as amortization. This is the amount by which intangible assets additions exceed amortization in the current period	8,421
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(190,877)
Revenues reported in the governmental funds that have already been reported as revenue in the governmental activities in prior years when earned (but funds were unavailable in prior years)	(54,041)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	1,010,000
Bond proceeds received is a revenue in the governmental funds, but not in the statement of activities (where it increases long-term debt)	(1,270,000)
Interest expense incurred on outstanding bond principal payments that are recorded when earned in the statement of activities	4,425
Increase in pension liability recorded when incurred in the statement of activities	(27,481)
Increase in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	(55,250)
Internal Service Funds are also included as governmental activities	<u>(271,202)</u>
Change in Net Assets of Governmental Activities	<u>\$ 2,851,420</u>

City of Walker, Michigan

Proprietary Fund Statement of Net Assets June 30, 2004

	Internal Service Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 472,394
Inventories	<u>25,263</u>
Total current assets	497,657
Noncurrent assets - Capital assets	<u>2,127,641</u>
Total assets	2,625,298
Liabilities	
Current liabilities:	
Accounts payable	8,234
Accrued and other liabilities	<u>38,124</u>
Total current liabilities	46,358
Noncurrent liabilities - Capital lease payable	<u>75,000</u>
Total liabilities	<u>121,358</u>
Net Assets	
Investment in capital assets - Net of related debt	2,052,641
Unrestricted	<u>451,299</u>
Total net assets	<u>\$ 2,503,940</u>

City of Walker, Michigan

Proprietary Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2004

	Internal Service Fund
Operating Revenue - Charges for services	\$ 470,804
Operating Expenses	
Salaries	137,160
Contracted services	106,403
Operation and maintenance	164,577
Depreciation	<u>345,312</u>
Total operating expenses	<u>753,452</u>
Operating Loss	(282,648)
Nonoperating Revenue	
Investment income	5,487
Gain on disposal of assets	3,605
Other income	<u>2,354</u>
Total nonoperating revenue	<u>11,446</u>
Net Loss	(271,202)
Net Assets - Beginning of year	<u>2,775,142</u>
Net Assets - End of year	<u><u>\$ 2,503,940</u></u>

City of Walker, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2004

	Internal Service Fund
Cash Flows from Operating Activities	
Internal activity - Receipts from other funds	\$ 470,919
Payments to suppliers	(271,764)
Payments to employees	(131,915)
Proceeds from other income	2,354
Net cash provided by operating activities	69,594
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	(429,069)
Proceeds from sale of capital assets	3,605
Net cash used in capital and related financing activities	(425,464)
Cash Flows from Investing Activities - Interest received on cash equivalents and investments	5,487
Net Decrease in Cash and Cash Equivalents	(350,383)
Cash and Cash Equivalents - Beginning of year	822,777
Cash and Cash Equivalents - End of year	<u><u>\$ 472,394</u></u>
Balance Sheet Classification of Cash and Cash Equivalents - Cash and investments	<u><u>\$ 472,394</u></u>
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	\$ (282,648)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	345,312
Other income	2,354
Changes in assets and liabilities:	
Receivables	115
Accounts payable	(784)
Accrued and other liabilities	5,245
Net cash provided by operating activities	<u><u>\$ 69,594</u></u>

City of Walker, Michigan

Fiduciary Funds Statement of Fiduciary Net Assets June 30, 2004

	Pension Trust*	Agency Funds
Assets		
Cash and cash equivalents (Note 3)	\$ 942,530	\$ 3,890,399
Investments (Note 3):		
U.S. government securities	1,061,790	-
Stocks	3,788,547	-
Bonds	2,098,958	-
Total assets	7,891,825	<u>\$ 3,890,399</u>
Liabilities		
Cash bonds and deposits	-	\$ 3,549,819
Accounts payable	-	67,118
Due to other governmental units	-	273,462
Total liabilities	-	<u>\$ 3,890,399</u>
Net Assets - Held in trust for pension	<u>\$ 7,891,825</u>	

* Reported as of July 31, 2003

City of Walker, Michigan

Fiduciary Fund - Pension Trust Statement of Changes in Plan Net Assets Year Ended June 30, 2004

	<u>Pension Trust*</u>
Additions	
Investment income:	
Interest and dividends	\$ 205,644
Net increase in fair value of investments	<u>114,186</u>
Net investment income	319,830
Contributions - Employer	<u>585,000</u>
Total additions	904,830
Deductions	
Benefit payments	794,659
Administrative expenses and other	<u>19,140</u>
Total deductions	<u>813,799</u>
Net Increase	91,031
Net Assets Held in Trust for Pension Benefits	
Beginning of year	<u>7,800,794</u>
End of year	<u><u>\$ 7,891,825</u></u>

* Reported as of July 31, 2003

City of Walker, Michigan

Component Units Statement of Net Assets June 30, 2004

	Downtown Development Authority	Brownfield Redevelopment	Total
Assets			
Cash and cash equivalents	\$ 482,628	\$ 5,942	\$ 488,570
Accounts receivable	3,379	-	3,379
Deposits	50,000	-	50,000
Capital assets	992,799	-	992,799
Total assets	1,528,806	5,942	1,534,748
Liabilities and Net Assets			
Liabilities			
Accrued and other liabilities	129,605	-	129,605
Noncurrent liabilities (Note 8):			
Due within one year	150,000	-	150,000
Due in more than one year	325,000	-	325,000
Total liabilities	604,605	-	604,605
Net Assets			
Investment in capital assets - Net of related debt	517,799	-	517,799
Unrestricted	406,402	5,942	412,344
Total net assets	<u>\$ 924,201</u>	<u>\$ 5,942</u>	<u>\$ 930,143</u>

City of Walker, Michigan

Component Units Statement of Activities Year Ended June 30, 2004

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Downtown Development Authority	Brownfield Redevelopment	Total
Downtown Development Authority							
Public works	\$ 10,302	\$ 15,100	\$ -	\$ -	\$ 4,798	\$ -	\$ 4,798
Interest expense	76,375	-	-	-	(76,375)	-	(76,375)
Brownfield Redevelopment -							
Public works	487,487	-	345,467	-	-	(142,020)	(142,020)
Total component units	<u>\$ 574,164</u>	<u>\$ 15,100</u>	<u>\$ 345,467</u>	<u>\$ -</u>	(71,577)	(142,020)	(213,597)
General Revenue							
Taxes					369,748	-	369,748
Interest and rents					6,426	144	6,570
Total general revenue					376,174	144	376,318
Change in Net Assets					304,597	(141,876)	162,721
Net Assets - Beginning of year					619,604	147,818	767,422
Net Assets - End of year					<u>\$ 924,201</u>	<u>\$ 5,942</u>	<u>\$ 930,143</u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Walker, Michigan (the “City”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City.

Reporting Entity

The City is governed by an elected seven-member commission. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government’s operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

Blended Component Units

The 59th District Court has been blended into the General Fund of the City’s financial statements. Although the Court operates under the direction of the district judge, it is reported as if it was part of the primary government because of the fiduciary responsibility the City retains relative to the operations of the Court.

The City of Walker Building Authority is governed by a five-member board that is appointed by the City Commission. Although it is legally separate from the City, it is reported as if it was part of the primary government because its primary purpose is to monitor and finance the construction of the City’s public buildings.

Discretely Presented Component Units

The following component units are reported within the component units column in the combined financial statements. They are reported in a separate column to emphasize that they are legally separate from the City. No separate reports are issued for these funds.

- a. The Downtown Development Authority was created to correct and prevent deterioration, encourage historical preservation, and to promote economic growth within the downtown district. The Authority’s governing body, which consists of eight individuals, is selected by the City Commission. In addition, the Authority’s budget is subject to approval by the City Commission.

Note I - Summary of Significant Accounting Policies (Continued)

- b. The Brownfield Redevelopment Authority was created to account for the redevelopment of environmentally contaminated and other underutilized sites within the City. The Authority's governing body, which consists of five individuals, is selected by the City Commission.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, State-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The government reports the following major governmental funds:

General Fund - The General Fund contains the records of the ordinary activities of the City that are not accounted for in another fund. General Fund activities are financed by revenue from income taxes, property taxes, State-shared revenue, and other sources.

Major Street Fund - The Major Street Fund accounts for the resources of State gas and weight tax revenues that are restricted for use on major streets.

Local Street Fund - The Local Street Fund accounts for the resources of State gas and weight tax revenues that are restricted for use on local streets.

Improvement Revolving Fund - The Improvement Revolving Fund accounts for the resources of special assessment proceeds that are used for improvements on special assessment districts.

Ice and Fitness Program Fund - The Ice and Fitness Program Fund provides a recreation facility for the residents of the City.

Note 1 - Summary of Significant Accounting Policies (Continued)

Additionally, the government reports the following fund types:

Internal Service Fund - The Internal Service Fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City or to other governments, primarily on a cost-reimbursement basis. The Internal Service Fund rents out various equipment to the police, fire, and department of public works.

Fiduciary Funds - Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, other governments, or other funds. These include the Agency Funds and the Pension Trust Fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. The Agency Funds hold such resources as cash bonds and deposits and tax collections for other governmental entities. The Pension Trust Fund is accounted for in the same manner as proprietary funds, and has been presented on its fiscal year end of July 31, 2003. It covers all general and police employees.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary fund relates to charges to other funds for equipment rentals. Operating expenses for proprietary funds include the cost of equipment and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Note 1 - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year would be referred to as "advances to/from other funds."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time they are added to the county tax rolls. The 2003 taxable valuation of the City totaled \$839 million, which taxes were levied at 1.336 mills for the City's operating purposes. All of the property tax revenue is recognized in the General Fund.

Inventories - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The City has delayed retroactive reporting of all major general infrastructure assets and all intangible infrastructure assets purchased or donated from July 1, 1982 through June 30, 2002.

Infrastructure, buildings, improvements, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	5 to 50 years
Land improvements	5 to 30 years
Buildings and building improvements	7 to 40 years
Vehicles	2 to 5 years
Office furnishings	5 to 7 years
Other tools and equipment	5 to 20 years

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - It is the government's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Seventy-five percent of the accumulated sick balance is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - The annual budget is prepared by the City management and adopted by the City Commission approximately 30 days before the start of the beginning of the fiscal year. A public hearing on the budget shall be held before its final adoption, at such time and place as the Commission shall direct, and notice of such public hearing shall be published at least one week in advance by the clerk. Subsequent amendments are approved by the City Commission if determined necessary in a similar process. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered. The amount of encumbrances is not calculated as of June 30, 2004.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget statement (schedule of revenue, expenditures, and changes in fund balance - budget and actual) is presented on the same basis of accounting used in preparing the adopted budget.

The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the governing body is the fund level. Expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations for the General Fund, Major Street Fund, Local Street Fund, Improvement Revolving Fund, and the Ice and Fitness Program Fund - budget, as adopted by the City Commission, is included in the required supplemental information. A comparison of actual results of operations to other funds' budgets can be obtained at City Hall.

The City of Walker is in noncompliance with the Uniform Accounting and Budgeting Act due to budgeting the Ice and Fitness Center at a deficit. Under this Act, the City needs to budget actual estimated expenditures, including an accrued deficit, not to exceed the total estimated revenues. Although the actual results in this fund did not end in a deficit, it is against the law to approve a budget that leaves a fund in a deficit.

Fund Deficits - The City has no fund deficits in any individual funds.

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications that matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The governing body has designated eight banks for the deposit of local unit funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts, and CDs, and the remainder of State statutory authority as listed above.

The City's deposits and investment policy are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and cash equivalents	\$ 4,717,964	\$ 4,832,929	\$ 9,550,893	\$ 488,570
Investments	607,109	6,949,295	7,556,404	-
Total	<u>\$ 5,325,073</u>	<u>\$ 11,782,224</u>	<u>\$ 17,107,297</u>	<u>\$ 488,570</u>

Note 3 - Deposits and Investments (Continued)

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 9,522,214	\$ 488,570
Investments in securities, mutual funds, and similar vehicles	7,583,141	-
Petty cash or cash on hand	1,942	-
Total	<u>\$ 17,107,297</u>	<u>\$ 488,570</u>

The bank balance of the primary government's deposits is \$9,833,967, of which \$703,716 is covered by federal depository insurance and \$3,000,000 is collateralized by a Guaranty Bond held by the pledging financial institution. A total of \$6,130,251 was uninsured and uncollateralized. The component units' deposits had a bank balance of \$488,750, all of which was uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 3 - Deposits and Investments (Continued)

Investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, with securities held by the City or its agent in the City's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

At year end, the City's investment balances were categorized as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
Primary government:				
Corporate bonds	\$ -	\$ 1,061,790	\$ -	\$ 1,061,790
U.S. government securities	-	2,098,958	-	2,098,958
Common and preferred stock	-	3,788,547	-	3,788,547
Subtotal	<u>\$ -</u>	<u>\$ 6,949,295</u>	<u>\$ -</u>	<u>6,949,295</u>
Investments not subject to categorization - MBIA - Michigan Class				<u>633,846</u>
Total primary government				<u>\$ 7,583,141</u>

Interlocal agreement (MBIA Class) investment pools are not evidenced by securities that exist in physical or book entry form. Investments under the interlocal agreement (MBIA-CLASS) are regulated by the Urban Cooperation Act. The fair value of the position in the interlocal agreement pools is the same as the value of the pool shares.

City of Walker, Michigan

Notes to Financial Statements June 30, 2004

Note 4 - Receivables

Receivables as of year end for the City's individual major funds and the nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Major Street Fund	Local Street Fund	Improvement Revolving Fund	Ice and Fitness Program Fund	Nonmajor Funds	Total
Receivables:							
Taxes	\$ 125,633	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 125,633
Special assessments	301,751	-	-	-	-	-	301,751
Accounts	99,878	-	-	18,037	29,301	-	147,216
Intergovernmental	708,197	339,244	68,822	-	-	-	1,116,263
Interest and other	975	-	-	344	-	2,719	4,038
Less allowance for uncollectibles	-	-	-	-	-	-	-
Total governmental activities	<u>\$ 1,236,434</u>	<u>\$ 339,244</u>	<u>\$ 68,822</u>	<u>\$ 18,381</u>	<u>\$ 29,301</u>	<u>\$ 2,719</u>	<u>\$ 1,694,901</u>

The component unit has an accounts receivable balance of \$3,379.

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Special assessments	\$ 295,935	\$ -
Franchise fees	-	34,651

Note 5 - Capital Assets

Capital asset activity of the primary government's governmental activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,797,745	\$ 23,000	\$ -	\$ 2,820,745
Construction in progress	271,345	273,813	(271,345)	273,813
Subtotal	3,069,090	296,813	(271,345)	3,094,558
Capital assets being depreciated:				
Roads and sidewalks	2,640,457	3,988,045	(155,454)	6,473,048
Buildings and improvements	21,039,990	57,980	(71,270)	21,026,700
Land improvements	1,734,486	30,012	(4,000)	1,760,498
Vehicles	1,128,878	45,418	(18,892)	1,155,404
Office furnishings	439,222	28,048	-	467,270
Other tools and equipment	5,634,455	630,193	-	6,264,648
Subtotal	32,617,488	4,779,696	(249,616)	37,147,568
Accumulated depreciation:				
Roads and sidewalks	61,819	221,740	(648)	282,911
Buildings and improvements	4,188,948	533,095	(5,791)	4,716,252
Land improvements	456,955	87,602	-	544,557
Vehicles	835,649	111,499	(18,892)	928,256
Office furnishings	258,709	60,471	-	319,180
Other tools and equipment	3,072,628	499,986	-	3,572,614
Subtotal	8,874,708	1,514,393	(25,331)	10,363,770
Net capital assets being depreciated	23,742,780	3,265,303	(224,285)	26,783,798
Net capital assets	\$ 26,811,870	\$ 3,562,116	\$ (495,630)	\$ 29,878,356

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 630,397
Judicial Court	9,719
Police	247,806
Fire	65,267
Public works	199,917
Recreation and culture	361,287
Total governmental activities	\$ 1,514,393

Note 5 - Capital Assets (Continued)

Capital asset activity of the component units was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Component Units				
Capital assets not being depreciated:				
Land	\$ 742,183	\$ 168,181	\$ -	\$ 910,364
Construction in progress	-	20,928	-	20,928
Subtotal	742,183	189,109	-	931,292
Capital assets being depreciated:				
Roads and sidewalks	13,518	-	-	13,518
Land improvements	4,000	51,839	-	55,839
Subtotal	17,518	51,839	-	69,357
Accumulated depreciation:				
Roads and sidewalks	2,568	2,904	-	5,472
Land improvements	650	1,728	-	2,378
Subtotal	3,218	4,632	-	7,850
Net capital assets being depreciated	14,300	47,207	-	61,507
Net capital assets	<u>\$ 756,483</u>	<u>\$ 236,316</u>	<u>\$ -</u>	<u>\$ 992,799</u>

As of June 30, 2004, the City had \$147,033 in intangible assets, net of depreciation. The entire balance relates to amount paid on infrastructure not owned by the City.

Depreciation expense of the component unit related solely to public works.

Note 5 - Capital Assets (Continued)

Construction Commitments - The City has the following construction project commitments at year end:

	Spent to Date	Remaining Commitment
Road projects:		
M45 to Manzana	\$ 238,780	\$ 481,700
Wilson-Burton Intersection	24,143	132,800
Wilson/M45	20,928	605,000

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from other funds:		
General Fund	1988 Debt Service Fund	\$ 270,000
General Fund	1989 Debt Service Fund	395,000
General Fund	Ice and Fitness Program Fund	25,000
Major Street Fund	Improvement Revolving Fund	164,209
Ice and Fitness Program Fund	General Fund	43,000
Total		<u>\$ 897,209</u>

The majority of the above interfund balances is due to the General Fund from the 1988 Debt Service and 1989 Debt Service Funds for the transfer of excess funds remaining in these funds after payment of the bonds.

City of Walker, Michigan

Notes to Financial Statements June 30, 2004

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers were as follows:

	Transfers Out			Totals
	General Fund	Improvement Revolving Fund	Other Governmental Funds	
Transfers in:				
General Fund	\$ -	\$ -	\$ 665,000	\$ 665,000
Major Street Fund	189,406	-	-	189,406
Local Street Fund	278,530	-	-	278,530
Improvement Revolving Fund	-	-	2,873	2,873
Ice and Fitness Program	257,630	-	-	257,630
Other governmental funds	1,132,974	229,630	-	1,362,604
Total	<u>\$ 1,858,540</u>	<u>\$ 229,630</u>	<u>\$ 667,873</u>	<u>\$ 2,756,043</u>

The majority of the above interfund transfers is made from the General Fund to help fund operations or to assist with debt payments. Also, there are many transfers from other funds for their portion of the debt payments to a Debt Service Fund.

Note 7 - Leases

Capital Leases - The City has entered into a lease agreement as lessee for financing the purchase of a loader. This lease agreement qualifies as a capital lease for accounting purposes. The future minimum lease obligations and the net present value are as follows:

Total minimum lease payments due in 2006	\$ 83,326
Less amount representing interest	<u>8,326</u>
Present value	<u>\$ 75,000</u>

Note 8 - Long-term Debt

The special assessment bonds represent the financing of public improvements that benefit specific districts; these districts are specially assessed, at least in part, for the cost of the improvements. At June 30, 2004, the City has approximately \$626,000 set aside in Debt Service Funds for repayment of these bonds. In addition, there is approximately \$302,000 of special assessments receivable outstanding; the amount of receivables delinquent at June 30, 2004 is not significant. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources are received.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. The outstanding debt of the component unit as of June 30, 2004 is comprised of a general obligation bond issue and a land contract.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Special assessment bonds, maturing through 2010, interest ranging from 3.75% to 6.5%	\$ 975,000	\$ -	\$ (390,000)	\$ 585,000	\$ 340,000
Michigan Transportation Fund Bonds, Series 2004, maturing through 2019, interest ranging from 2.9% to 4.35%	-	1,270,000	-	1,270,000	60,000
1999 Building Authority General Obligation Limited Tax Bonds, maturing through 2020, interest ranging from 5.13% to 5.25%	7,420,000	-	(275,000)	7,145,000	290,000
1998 Building Authority General Obligation Limited Tax Bonds, maturing through 2018, interest ranging from 4.5% to 4.75%	<u>7,405,000</u>	<u>-</u>	<u>(345,000)</u>	<u>7,060,000</u>	<u>360,000</u>
Total governmental activities	15,800,000	1,270,000	(1,010,000)	16,060,000	1,050,000
Component units:					
1993 Downtown Development General Obligation Limited Tax Bonds, maturing through 2007, interest at 4.8%	615,000	-	(140,000)	475,000	150,000
Land contract through Bisbee Realty, LLC, maturing through 2004, interest at 9.5%	<u>115,369</u>	<u>-</u>	<u>(115,369)</u>	<u>-</u>	<u>-</u>
Total component units	<u>\$ 730,369</u>	<u>\$ -</u>	<u>\$ (255,369)</u>	<u>\$ 475,000</u>	<u>\$ 150,000</u>

Note 8 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above governmental bond and note obligations are as follows:

	Governmental Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 1,050,000	\$ 770,451	\$ 1,820,451	\$ 150,000	\$ 22,800	\$ 172,800
2006	835,000	725,087	1,560,087	160,000	15,600	175,600
2007	825,000	687,033	1,512,033	165,000	7,920	172,920
2008	860,000	648,370	1,508,370	-	-	-
2009	900,000	610,638	1,510,638	-	-	-
2010-2014	5,150,000	2,226,030	7,376,030	-	-	-
2015-2019	5,800,000	844,390	6,644,390	-	-	-
2020-2024	640,000	18,820	658,820	-	-	-
Total	<u>\$ 16,060,000</u>	<u>\$ 6,530,819</u>	<u>\$ 22,590,819</u>	<u>\$ 475,000</u>	<u>\$ 46,320</u>	<u>\$ 521,320</u>

In September 2004, Downtown Development General Obligation Limited Tax Bonds were issued for \$605,000. The liability will be recorded in the component unit in the next fiscal year.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for coverage on the risk of loss related to property loss and errors and omissions. The City has purchased commercial insurance for coverage of health claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 10 - Postemployment Benefits

The City provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 34 retirees are eligible. The City includes pre-Medicare retirees in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums come due; during the year, this amounted to approximately \$142,000.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Note 11 - Retirement Plans

The City maintains two separate retirement plans, as follows:

Defined Contribution Plan

The City provides pension benefits to substantially all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The City contributes 10 percent of employees' eligible earnings, as defined in the plan document. In accordance with these requirements, the City contributed \$289,309 during the year ended June 30, 2004. In addition, employee contributions amounted to \$53,119 during the year ended June 30, 2004.

Note 11 - Retirement Plans (Continued)

Defined Benefit Pension Plan

Plan Description

The City contributes to the City of Walker Pension Plan (the "Plan"), which is a single-employer defined-benefit pension plan that is administered by Huntington Bank. The Plan, which is closed to new participants, provides retirement and death benefits to Plan members and their beneficiaries. At August 1, 2002, the date of the actuarial valuation, membership consisted of 36 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 56 current active employees. The Plan does not issue a separate financial report.

Contributions

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the Plan are recognized when due and when the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Please refer to Note 1 for further significant accounting policies.

The funding policy, in accordance with resolution of the City Commission, provides for periodic employer contributions at actuarially determined rates. Administrative costs of the Plan are financed through investment earnings.

Annual Pension Cost

For the year ended June 30, 2004, the City's annual pension cost and actual contributions was \$582,637. For the year ended June 30, 2003, the City's annual pension cost was \$524,829 and the actual contribution was equal to \$300,000, resulting in a net pension obligation of approximately \$224,000 that has accrued to a net pension obligation of approximately \$252,000 in 2004. The annual required contribution was determined as part of an actuarial valuation at August 1, 2002, using the aggregate actuarial cost method. Significant actuarial assumptions include an 8.5 percent investment rate of return and projected salary increases of 4.5 percent per year, both of which include an inflation component. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility. The use of the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities.

Note 11 - Retirement Plans (Continued)

Reserves

As of June 30, 2004, the Plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 994,863
Reserve for retired benefit payments	317,905

Three-year trend information as of August 1 follows:

	2002	2003	2004
Annual pension costs (APC)	\$ 452,409	\$ 524,829	\$ 582,637
Percentage of APC contributed	100%	59%	100%
Net pension obligation	\$ -	\$ 224,829	\$ 252,310

Voluntary Early Retirement Incentive Benefit

As of February 10, 2003, the City has adopted a voluntary early retirement incentive plan whereby participants who have attained age 55 and completed five years of service, or at any age has completed 20 years of service, and who voluntarily resigns from employment will be eligible. The amount of the participant's benefit is the participant's accrued benefit as of the effective retirement date, unreduced, and will be calculated with an additional two years of credited service added to the total number of years of credited service. As of June 30, 2004, the City has not recorded an associated liability with this plan.

Note 12 - Construction Code Fees

The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall - July 1, 2003	\$ (177,897)
Current year building permit revenue	434,175
Related expenses:	
Direct costs	357,370
Estimated indirect costs	<u>55,560</u>
Total construction code expenses	<u>412,930</u>
Cumulative shortfall - June 30, 2004	<u>\$ (156,652)</u>

Required Supplemental Information

City of Walker, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance With Amended Budget
Fund Balance - Beginning of year	\$ 1,342,094	\$ 1,342,094	\$ 1,342,094	\$ -
Resources (inflows):				
Income taxes	6,600,000	6,600,000	7,387,763	787,763
Property taxes and other	1,197,500	1,197,500	1,151,484	(46,016)
State sources	1,913,000	1,913,000	1,849,326	(63,674)
Licenses and permits	487,400	487,400	478,959	(8,441)
Fines and forfeitures	840,000	840,000	962,813	122,813
Other charges for services	348,598	348,598	321,455	(27,143)
Rentals	19,150	19,150	15,773	(3,377)
Interest	67,500	67,500	38,837	(28,663)
Federal sources	-	-	25,550	25,550
Transfers from other funds	665,000	665,000	665,000	-
Other	95,000	95,000	176,163	81,163
Total resources (inflows)	12,233,148	12,233,148	13,073,123	839,975
Charges to appropriations (outflows):				
General government:				
Legislative	61,400	61,400	60,537	863
City administration	526,875	526,875	629,342	(102,467)
Elections	49,000	49,000	30,735	18,265
Assessor	149,313	149,313	146,531	2,782
Clerk	193,400	193,400	171,911	21,489
Finance	111,800	111,800	102,561	9,239
Treasurer	85,000	85,000	88,852	(3,852)
Income tax administration	211,480	211,480	209,134	2,346
Building and grounds	403,875	403,875	370,755	33,120
Community development inspections	403,900	403,900	379,870	24,030
Planning commission	117,250	117,250	104,469	12,781
Zoning Board of Appeals	6,000	6,000	4,028	1,972
Advisory committees	25,500	25,500	18,740	6,760
Other	216,000	216,000	74,160	141,840
Judicial court	804,398	804,398	758,695	45,703
Public safety:				
Police	3,651,237	3,651,237	3,557,701	93,536
Fire	1,213,846	1,213,846	1,119,861	93,985
Public works:				
Storm sewer drain	131,500	131,500	56,685	74,815
Engineering	177,650	177,650	173,520	4,130
Highways and streets	209,802	209,802	166,146	43,656

City of Walker, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance With Amended Budget
Charges to appropriations (outflows) (Continued):				
Recreation and culture:				
Parks	\$ 238,490	\$ 238,490	\$ 245,788	\$ (7,298)
Recreation	247,640	247,640	186,524	61,116
Library	750	750	799	(49)
Other:				
Employee benefits	941,000	941,000	1,371,460	(430,460)
Insurance	225,000	225,000	262,888	(37,888)
Capital outlay	125,864	125,864	135,108	(9,244)
Transfers to other funds	<u>1,578,665</u>	<u>1,578,665</u>	<u>1,858,540</u>	<u>(279,875)</u>
 Total charges to appropriations (outflows)	 <u>12,106,635</u>	 <u>12,106,635</u>	 <u>12,285,340</u>	 <u>(178,705)</u>
 Fund Balance - End of year	 <u>\$ 1,468,607</u>	 <u>\$ 1,468,607</u>	 <u>\$ 2,129,877</u>	 <u>\$ 661,270</u>

City of Walker, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Year Ended June 30, 2004

Major Streets Fund

	Original Budget	Final Budget	Actual	Variance With Amended Budget
Fund Balance - Beginning of year	\$ 727,445	\$ 727,445	\$ 727,445	\$ -
Resources (inflows):				
State sources	1,032,000	1,032,000	1,212,783	180,783
Bond proceeds	-	-	1,270,000	1,270,000
Interest	12,000	12,000	3,971	(8,029)
Transfer from other funds	189,406	189,406	189,406	-
Total resources (inflows)	1,233,406	1,233,406	2,676,160	1,442,754
Charges to appropriations (outflows) - Public works - General	1,496,231	1,496,231	1,903,130	(406,899)
Fund Balance - End of year	<u>\$ 464,620</u>	<u>\$ 464,620</u>	<u>\$ 1,500,475</u>	<u>\$ 1,035,855</u>

Local Streets Fund

	Original Budget	Final Budget	Actual	Variance With Amended Budget
Fund Balance - Beginning of year	\$ 139,292	\$ 139,292	\$ 139,292	\$ -
Resources (inflows):				
State sources	318,000	318,000	425,102	107,102
Interest and rent	-	-	916	916
Transfer from other funds	278,530	278,530	278,530	-
Total resources (inflows)	596,530	596,530	704,548	108,018
Charges to appropriations (outflows) - Public works - General	596,530	596,530	576,396	20,134
Fund Balance - End of year	<u>\$ 139,292</u>	<u>\$ 139,292</u>	<u>\$ 267,444</u>	<u>\$ 128,152</u>

City of Walker, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds (Continued) June 30, 2004

Improvement Revolving Fund

	Original Budget	Final Budget	Actual	Variance With Amended Budget
Fund Balance - Beginning of year	\$ 607,793	\$ 607,793	\$ 607,793	\$ -
Resources (inflows):				
Special assessments	-	29,600	71,064	41,464
Interest and rent	13,300	13,300	12,894	(406)
Transfers from other funds	-	-	2,873	2,873
Total resources (inflows)	13,300	42,900	86,831	43,931
Charges to appropriations (outflows):				
General government:				
Building and grounds	-	20,000	642	19,358
Planning commission	120,000	120,000	-	120,000
Transfers to other funds	-	-	229,630	(229,630)
Total charges to appropriations (outflows)	120,000	140,000	230,272	(90,272)
Fund Balance - End of year	<u>\$ 501,093</u>	<u>\$ 510,693</u>	<u>\$ 464,352</u>	<u>\$ (46,341)</u>

City of Walker, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds (Continued) Year Ended June 30, 2004

Ice and Fitness Program Fund

	Original Budget	Final Budget	Actual	Variance With Amended Budget
Fund Balance - Beginning of year	\$ (170,518)	\$ (170,518)	\$ (170,518)	\$ -
Resources (inflows):				
Charges for services	1,095,725	1,095,725	852,946	(242,779)
Rentals	246,200	246,200	262,428	16,228
Interest	-	-	552	552
Transfer from other funds	450,000	450,000	257,630	(192,370)
Total resources (inflows)	1,791,925	1,791,925	1,373,556	(418,369)
Charges to appropriations (outflows):				
Recreation and culture - Recreation	1,104,450	1,104,450	1,200,101	(95,651)
Transfers to other funds	687,175	687,175	-	687,175
Total charges to appropriations (outflows)	1,791,625	1,791,625	1,200,101	591,524
Fund Balance - End of year	<u><u>\$ (170,218)</u></u>	<u><u>\$ (170,218)</u></u>	<u><u>\$ 2,937</u></u>	<u><u>\$ 173,155</u></u>

City of Walker, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress June 30, 2004

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
08/01/96	\$ 7,505,705	\$ 7,505,705	\$ -	100	\$ 3,022,987	-
08/01/97	8,951,117	8,951,117	-	100	3,422,638	-
08/01/98	9,963,271	9,963,271	-	100	3,635,336	-
08/01/99	8,644,124	8,644,124	-	100	1,876,019	-
08/01/00	9,054,434	9,054,434	-	100	2,283,413	-
08/01/01	9,158,698	9,158,698	-	100	2,402,080	-
08/01/02	8,129,856	8,129,856	-	100	2,528,844	-
08/01/03	7,770,966	7,770,966	-	100	2,522,964	-

City of Walker, Michigan

Required Supplemental Information Pension System Schedule of Employer Contributions June 30, 2004

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
06/30/97	08/01/96	\$ 369,020	100.0
06/30/98	08/01/97	415,186	100.0
06/30/99	08/01/98	467,099	100.0
06/30/00	08/01/99	465,432	100.0
06/30/01	08/01/00	507,764	100.0
06/30/02	08/01/01	452,409	100.0
06/30/03	08/01/02	524,829	59.0
06/30/04	08/01/03	582,637	100.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of August 1, 2003, the latest actuarial valuation, follows:

General Employees' Retirement System

Actuarial cost method	Aggregate
Amortization method	N/A
Amortization period (perpetual)	N/A
Asset valuation method	2-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.5%
Projected salary increases	4.5%

Other Supplemental Information

City of Walker, Michigan

	Special Vice Investigation	DDA Streetscape Maintenance	DDA Parking Lot
Assets			
Cash and cash equivalents	\$ 107,941	\$ 70,298	\$ 9,504
Investments	125,000	-	-
Receivables - Net	<u>327</u>	<u>15,445</u>	<u>4,650</u>
Total assets	<u>\$ 233,268</u>	<u>\$ 85,743</u>	<u>\$ 14,154</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ -	\$ 8,771	\$ 2,288
Due to other funds	-	-	-
Deferred revenue	<u>-</u>	<u>15,444</u>	<u>4,649</u>
Total liabilities	-	24,215	6,937
Fund Balances			
Reserved	-	-	-
Unreserved	<u>233,268</u>	<u>61,528</u>	<u>7,217</u>
Total fund balances	<u>233,268</u>	<u>61,528</u>	<u>7,217</u>
Total liabilities and fund balances	<u>\$ 233,268</u>	<u>\$ 85,743</u>	<u>\$ 14,154</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004**

Debt Service Funds									Nonmajor Capital Projects Funds	Total Nonmajor Governmental Funds
1987	1988	1989	1991-A	1991-B	1996-A	1996-B	1998	1999	Building and Site	
\$ -	\$ 271,861	\$ 409,881	\$ 827	\$ 15,960	\$ 298,089	\$ 35,408	\$ -	\$ -	\$ -	\$ 1,219,769
-	-	-	-	104,356	-	152,753	-	-	-	382,109
-	-	308	5,670	11,113	135,222	41,144	-	-	-	213,879
<u>\$ -</u>	<u>\$ 271,861</u>	<u>\$ 410,189</u>	<u>\$ 6,497</u>	<u>\$ 131,429</u>	<u>\$ 433,311</u>	<u>\$ 229,305</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,815,757</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,059
-	270,000	395,000	-	-	-	-	-	-	-	665,000
-	-	307	5,671	10,390	135,223	40,162	-	-	-	211,846
-	270,000	395,307	5,671	10,390	135,223	40,162	-	-	-	887,905
-	1,861	14,882	826	121,039	298,088	189,143	-	-	-	625,839
-	-	-	-	-	-	-	-	-	-	302,013
-	1,861	14,882	826	121,039	298,088	189,143	-	-	-	927,852
<u>\$ -</u>	<u>\$ 271,861</u>	<u>\$ 410,189</u>	<u>\$ 6,497</u>	<u>\$ 131,429</u>	<u>\$ 433,311</u>	<u>\$ 229,305</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,815,757</u>

City of Walker, Michigan

	Special Vice Investigation	DDA Streetscape Maintenance	DDA Parking Lot
Revenues			
Special assessments	\$ -	\$ -	\$ -
Charges for services	42,131	86,607	47,851
Interest	1,630	1,797	607
Total revenues	43,761	88,404	48,458
Expenditures			
Current:			
Judicial Court	2,838	-	-
Public works	-	74,831	25,780
Debt service	-	-	-
Total expenditures	2,838	74,831	25,780
Excess of Revenues Over (Under) Expenditures	40,923	13,573	22,678
Other Financing Sources (Uses)			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net Change in Fund Balances	40,923	13,573	22,678
Fund Balances - Beginning of year	192,345	47,955	(15,461)
Fund Balances - End of year	\$ 233,268	\$ 61,528	\$ 7,217

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds - Year Ended June 30, 2004

Debt Service Funds									Nonmajor Capital Projects Fund	Total Nonmajor Governmental Funds
1987	1988	1989	1991-A	1991-B	1996-A	1996-B	1998	1999	Building and Site	
\$ -	\$ 1,773	\$ 2,647	\$ 5,402	\$ 5,543	\$ 135,223	\$ 7,761	\$ -	\$ -	\$ -	\$ 158,349
-	-	-	-	-	-	-	-	-	-	176,589
28	3,229	5,718	827	3,093	22,849	3,913	-	-	-	43,691
28	5,002	8,365	6,229	8,636	158,072	11,674	-	-	-	378,629
-	-	-	-	-	-	-	-	-	-	2,838
-	-	-	-	-	-	-	-	-	-	100,611
-	-	51,250	22,500	57,400	256,744	44,804	686,875	660,729	-	1,780,302
-	-	51,250	22,500	57,400	256,744	44,804	686,875	660,729	-	1,883,751
28	5,002	(42,885)	(16,271)	(48,764)	(98,672)	(33,130)	(686,875)	(660,729)	-	(1,505,122)
-	-	-	15,000	-	-	-	686,875	660,729	-	1,362,604
(2,873)	(270,000)	(395,000)	-	-	-	-	-	-	-	(667,873)
(2,873)	(270,000)	(395,000)	15,000	-	-	-	686,875	660,729	-	694,731
(2,845)	(264,998)	(437,885)	(1,271)	(48,764)	(98,672)	(33,130)	-	-	-	(810,391)
2,845	266,859	452,767	2,097	169,803	396,760	222,273	-	-	-	1,738,243
<u>\$ -</u>	<u>\$ 1,861</u>	<u>\$ 14,882</u>	<u>\$ 826</u>	<u>\$ 121,039</u>	<u>\$ 298,088</u>	<u>\$ 189,143</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 927,852</u>

City of Walker, Michigan

Other Supplemental Information Agency Funds Combining Statement of Net Assets June 30, 2004

	Agency Funds				
	District Court	Tax Collections	General Agency	Other	Total Agency
Assets					
Cash and cash equivalents	<u>\$ 148,432</u>	<u>\$ 204,146</u>	<u>\$ 3,531,068</u>	<u>\$ 6,753</u>	<u>\$ 3,890,399</u>
Liabilities and Net Assets					
Liabilities					
Cash bonds and deposits	\$ 18,751	\$ -	\$ 3,531,068	\$ -	\$ 3,549,819
Accounts payable	-	60,365	-	6,753	67,118
Due to other governmental units	<u>129,681</u>	<u>143,781</u>	<u>-</u>	<u>-</u>	<u>273,462</u>
Total liabilities	<u>\$ 148,432</u>	<u>\$ 204,146</u>	<u>\$ 3,531,068</u>	<u>\$ 6,753</u>	<u>\$ 3,890,399</u>

September 30, 2004

Honorable Mayor and Members of the City Commission
City of Walker
4243 Remembrance Road, NW
Walker, Michigan 49544

Dear Mayor and Commissioners:

We have recently completed our audit of the financial statements of the City of Walker for the year ended June 30, 2004 and have issued our report thereon dated September 30, 2004. In addition to the audit report, we offer the following comments and recommendations for your consideration:

PREPARATION FOR THE AUDIT

It continues to be a pleasure to work with the staff in the Finance and Income Tax Departments and the Treasurer's office. In particular, we would like to thank Cindy Mielke, Julie Blok, and Dan DeVries for their efforts in preparing for the audit.

OVERVIEW OF FINANCIAL CONDITION

During the fiscal year ended June 30, 2004, the City's financial condition improved. Fund balance at June 30, 2004 increased to approximately \$2,130,000.

The City currently faces budgetary challenges due to reductions in state revenue sharing payments. The City should continue its effort to maintain an adequate level of working capital, in order to prepare the City to meet future financial challenges.

STATE SHARED REVENUE

State shared revenue accounts for approximately 14 percent of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been less than anticipated.

Although sales tax revenue would support an increase to total state shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the Governor's budget for the State's 2004/2005 fiscal year contains a provision to not pay counties statutory revenue sharing (the counties' only source of revenue sharing). Instead, the counties will change their property tax levy date for their operating millage from December to July (beginning in 2005). A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue sharing payments to cities, villages and townships for the State's 2004/2005 fiscal year at the prior year levels. This plan was recently approved by the Michigan legislature and signed by the Governor.

It is generally acknowledged that the State's budget woes will continue for several more years. The Governor recently announced that another \$500 million shortfall exists for the State's 2005/2006 fiscal year budget (the State's 2005/2006 fiscal year budget will be introduced by the Governor in early 2005). Also, during October 2004, the Governor announced that her administration may introduce a significant tax restructuring proposal shortly. Specific details of the proposal have not been formally announced and the impact on significant revenue sources to local governments, such as personal property taxes and revenue sharing, is not known. As a result of the continuing uncertainty with the State's budget situation and other potential developments with changes to State's tax structure, we continue to urge the City to be very conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

The table below details state shared revenue for the City over the past five years broken out by statutory and constitutional portions.

<u>State Fiscal Year</u>	<u>Statutory</u>	<u>Constitutional</u>	<u>Total</u>
2000	\$580,931	\$1,171,294	\$1,752,25
2001	673,643	1,417,374	2,091,017
2002	618,778	1,431,813	2,050,591
2003	527,143	1,456,053	1,983,196
2004	342,165	1,440,238	1,782,403

We will continue to update the City as developments occur.

TRANSPORTATION MATTERS

The Legislature recently approved HB 5319 which would earmark one half of one cent of the state gasoline tax for the preservation, improvement, or reconstruction of existing bridges. It is estimated that over the next ten years that approximately a half billion dollars will be available to local governments for bridge needs. Presently, these monies are used primarily by the Michigan Department of Transportation for State bridges. The legislation creates a Local Bridge Authority to manage the monies as well as seven, five member, regional bridge councils. The new Authority would consist of six voting members appointed by the State Transportation Commission (three nominations by the County Road Association of Michigan and three by the Michigan Municipal League) and two non-voting members nominated by the Department of Transportation.

Also, HB 4358 has been introduced which changes vehicle weight restrictions on Michigan roads for certain trucks (without regard to existing limitations imposed by local governments) and could reduce overweight truck fines.

PROPERTY TAX MATTERS

During the current legislative session, there have been a number of bills involving property taxes that impact local governments. The following is a highlight of several of the bills:

- HB 4880, as passed by the House in August 2004, proposes to increase property taxes for mobile home owners with additional monies earmarked for local governments.
- HB 6017 was introduced to address the inconsistent treatment of assessing commercial property using the occupancy method. The inconsistent treatment occurs when the taxable value of a commercial property is reduced based on a loss in occupancy and a corresponding increase will not occur when occupancy increases resulting in a permanent taxable cap on property (subject to annual inflationary increases). This treatment is a result of what is commonly referred to as the "WPW Case" involving the City of Troy.
- HB 4649 was passed by the House and would allow for local governments to pass a resolution exempting new construction on homestead property used as a living area from property taxes (subject to certain limitations) in all or just certain areas of the local jurisdiction.
- HB 5358 was introduced and would change the requirements for personal property tax examiners including: requiring the State Tax Commission to qualify examiners based on experience and examination; require examiners to be employees of a local government; and make payments to examiners on a per parcel basis.
- HB 5538, as passed by the House, exempts property under development from school operating taxes (18 mills) by classifying the property as "homestead" property. The bill also proposes to not allow the taxable value of property to "uncap" when the property is sold to a new owner.
- HB 4234, as passed by the House, would provide a personal property tax exemption to businesses with taxable value of personal property of \$7,500 or less (these businesses would be exempt from paying any personal property taxes). Language was included in the House that any revenue loss to local governments would be reimbursed by the State. However, these monies would require an appropriation by the Legislature.

TOOL & DIE RECOVERY ZONES

The Michigan Renaissance Zone Act has been amended to allow the Michigan Strategic Fund Board to designate up to 20 tool and die renaissance recovery zones. To qualify for a recovery zone designation, a parcel of property must be leased or owned by a qualified tool and die business and used primarily for tool and die business operations. Companies located in a recovery zone rewarded with tax relief from the following taxes: Single Business Tax, 6-mill state education tax, local personal property tax, and local income tax. Currently, the City has 27 of such business in the area that would qualify for this tax relief.

September 30, 2004

Approval by the City is required to establish a zone within its boundaries, and therefore the City will need to weigh the possible benefits of establishing a tool and die renaissance recovery zones against the possible loss in revenue before approving a proposed zone. The City should consider establishing a tool and die renaissance recovery zone as a means to maintain the tool & die business and employment base within the City, especially for tool & die businesses looking to relocate outside of the City. But, we also encourage the City to actively monitor how tool and die renaissance recovery zones might affect expected tax revenues. We recommend considering all factors before approving or disapproving a proposed zone.

HEALTH CARE COSTS

It is our understanding that the State of Michigan may be offering local governments the opportunity to participate in the State's prescription drug program. A presentation was made in September 2004 to introduce this program to local governments. While we have not evaluated the program, the City may want to consider this option as it evaluates and continues to try to control its health care costs.

ICE & FITNESS CENTER

In light of the recent management changes at the Ice and Fitness Center, its internal controls, accounting records, and processes have improved significant over prior year. During our testing, we did note the following internal control and reporting improvements that could be made in addition to the procedures already in place:

- Inventory procedures should continue to be refined. While a perpetual inventory system was put into place recently, inventory items continue to be valued at catalog prices, and not the actual price paid for the item. The City needs to communicate the final price paid on the invoice to the staff at the accounts payable department, and inventory records should be updated periodically to reflect the most recent cost.
- Inventory records should also be updated periodically to reflect any goods that are being sold at a price below cost due to inventory reduction efforts. Inventory records are required to be maintained at the lower of cost or market. Also, a listing of slow moving or obsolete inventory should be maintained and updated periodically.
- It was also noted that one person has the capability to record cash receipts, enter invoices into accounts payable, and prepare the bank reconciliation without review by another person independent of the process. Management has indicated this process is currently under review for changes.

AGENCY FUNDS

There are trust and agency accounts for cash bonds and deposits (a liability account) with debit balances approximating \$160,000. This amount represents cash that the City has paid in excess of cash received. While the City seeks reimbursement for these costs, it is unlikely that the costs can be recovered. The City should develop a plan to address this issue.

DISALLOWED EXPENDITURES

Elected officials, as well as management, should become familiar with what are potentially unlawful expenditures. The State of Michigan website has provided a reference for local government officials, employees, and governmental auditors of selected references that address some of the questionable expenditures of local government. A listing can be found at the State's website @ http://www.michigan.gov/treasury/1,1607,7-121-1751_2194-7603--_00.html. The City should closely monitor expenditures for these types of items to ensure the proper use of City funds.

COMPLIANCE REQUIREMENTS

We would like to remind the City administration to file all reports as required by the State of Michigan. It has come to our attention that the City did not file the 2002 and 2003 Form F-65, which is information used by the State for census purposes. After contacting the State for guidance, the City was advised that no penalties will be enforced against the City for not filing this form and it is not required by the State to file the missed years.

PENSION COSTS

For the year ended June 30, 2004, the City's annual pension cost and actual contribution was \$582,637. The city made 100 percent of the required contribution and met the requirements of GASB 25 and ACT 314 of the Michigan statutes. The annual required contribution was determined as part of an actuarial valuation at August 1, 2002, using the aggregate actuarial cost method.

RETIREE HEALTH CARE BENEFITS

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the *government wide financial statements*, rather than the individual fund level. As a result, you will not need to change your budgeting practices.

The new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC) While the ARC does not need to be funded each year, any under funding must be reported as a liability on the government wide statement of net assets.

This valuation will need to be performed by an actuary if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. For plans with 100 to 200 participants, the actuarial valuation must be at least every three years; for those over 200 participants, at least every other year.

Honorable Mayor and Members of the City Commission
City of Walker

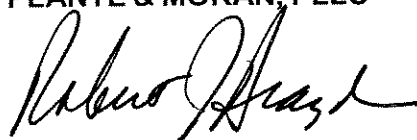
September 30, 2004

This statement is being phased in over a three year period, similar to GASB 34. It is effective for fiscal years beginning after December 15, 2006, 2007 or 2008 depending on whether your revenues are over \$100 million, between \$10 million and \$100 million, or under \$10 million. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above dates.

We would like to thank the Mayor and the City Commission for the opportunity to serve as the auditors for the City. We would also like to express our appreciation for the courtesy and cooperation extended to us during our audit. As always, please feel free to call with questions regarding the information above or that which is presented in the general purpose financial statements.

Very truly yours,

PLANTE & MORAN, PLLC



Robert J. Brazda



Karen A. Courtade